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HUGH RUSSEL LIMITED

annual report 1971

INDEX

HUGH RUSSEL LIMITED

Second Quarter Financial Results

Hugh Russel Limited of Toronto, distributors and manufacturers of industrial products, reports sales for the three months ending June 30, 1971, were $18,165,268 with earnings of $216,161 or 26 cents per common share. This compares with sales of $16,458,006 and earnings of $294,088 or 38 cents per share in the corresponding period last year.

Earnings for the year to date were $277,677 or 27 cents per common share vs. $568,783 or 73 cents per common share earned in 1970.

A decided improvement was evident in the second quarter of this year over the preceding two quarters. Capital spending in the private sector is still relatively quiet but we look for an early pick-up of activity.

Demand for products carried by our various distribution companies is improving steadily with consequent improvement in sales and profits.

All divisions are well positioned to capitalize on the current expansion of business activity which we expect will continue into 1972.

The two-for-one split of the Company's common shares has been formally approved and the change of name to HUGH RUSSEL LIMITED is now in effect.

With existing operations developing well and the recent financing now behind us, we can devote increasing attention to the study of new investment opportunities.

Second Quarter Report 1971

from

HUGH RUSSEL LIMITED

8 KING STREET EAST, TORONTO, ONTARIO,
TEL. (416) 363-0341

we would be unable to accomplish our objectives for the future.

HUGH RUSSEL LIMITED, AND SUBSIDIARY COMPANIES

(Unaudited figures)

Consolidated Income Statement for the 3 and 6 month periods ended June 30, 1971
(with comparative figures for 1970)

	1971		1970	
	3 Months	6 Months	3 Months	6 Months
Net Sales	$18,165,268	$32,330,180	$16,458,006	$30,850,747
Earnings from operations before deducting the following:	$ 788,579	$ 1,178,037	$ 818,839	$ 1,652,236
Depreciation	160,337	321,037	142,709	255,525
Interest on long-term debt	87,360	134,484	29,931	81,601
Earnings before income taxes and minority interest	$ 540,882	$ 722,516	$ 646,199	$ 1,315,110
Provision for income taxes	314,721	424,839	340,911	723,927
Minority Interest	10,000	20,000	11,200	22,400
Net earnings for the period	$ 216,161	$ 277,677	$ 294,088	$ 568,783
Earnings per common share (1)	$ 0.26	$ 0.27	$ 0.38	$ 0.73
Fully diluted earnings per share (1)	$ 0.26	$ 0.27	$ 0.31	$ 0.59

(1) after giving effect to the 2-for-1 stock split effective July 16, 1971.

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

For the 6 months ended June 30,1971
(with comparative figures for 1970)

	1971	1970
Funds were obtained from:		
Operations:		
Net earnings for the period	$ 277,677	$ 568,783
Expenses not requiring a current cash outlay:		
Depreciation	321,037	255,525
Income taxes (deferred)	(16,022)	25,000
Sale of debentures	3,000,000	—
Contractual obligation to vendors re acquisition of Hector Steel Industries Limited (less current portion)	—	2,937,500
Stock options exercised	—	986
Employees' share purchase plan	46,040	—
Sale of fixed assets	46,958	—
	$3,675,690	$3,787,794
Funds were applied to:		
Additions to facilities	$ 182,822	$ 612,315
Pay dividends on common shares	126,607	125,383
Pay dividends on preferred shares	107,250	107,250
Retire — debentures	115,000	66,000
Retire — other long-term debt	120,067	69,786
Purchase shares of subsidiary company (less working capital acquired)	—	1,902,457
Sundry	24,500	17,051
	$ 676,246	$2,900,242
Increase in working capital	$2,999,444	$ 887,552

August 10, 1971

HUGH RUSSEL LIMITED

1971 ANNUAL REPORT

To the Shareholders

Hugh Russel Limited achieved record sales and profits during 1971. We take satisfaction from this result because it was achieved in the face of severe national and international problems and a less than buoyant economy. These results have been brought about, in no small measure, by the strenuous efforts made over the past two years to reduce costs and improve customer service.

During 1971 we took a number of steps consistent with our long term objective of providing our shareholders with an above average return on their investment. We raised $3 million in new money with which to finance new growth. A study of the balance sheet and report on operations will reveal that we have simplified a number of aspects of our management and corporate structure, including the adoption of a simpler company name. To make the company's common shares more attractive to the general investing public, the shareholders authorized a 2 for 1 split which became effective in July. Other steps to simplify our corporate structure and reduce costs will be taken in the years ahead.

As a diversified and growing company Hugh Russel serves Canadian industry in two broad ways.

> First, we warehouse and distribute an extensive range of industrial products; steel in many shapes and forms, anti-friction bearings and power transmission components.
>
> Second, we design and sell a number of types of production machinery.

As a broadly based service organization, actively trading with more than 20,000 Canadian companies, we respond to and in fact mirror general economic activity. This broad national view of the industrial sector places us in an advantageous position to judge the tempo of business. Our records indicate that there was a marked pick up in activity during the second quarter of 1971. The improvement continued as the year progressed, although the consequences of the international monetary crisis had a restraining effect.

With settlement of the monetary crisis in December, there seems to be every reason to believe that the rate of increase in business activity seen in the latter part of 1971 will continue in 1972 and possibly accelerate.

Indications are that 1972 should be a record year for Hugh Russel Limited in the light of current and prospective business conditions.

As in the past, and speaking for the Board of Directors, I wish to thank all employees who have contributed to the growth and success of this company and without whose continuing efforts and individual achievement we would be unable to accomplish our objectives for the future.

February 17, 1972.

A. D. RUSSEL
President.

The Highlights of 1971

1. **EARNINGS** per common share of $1.17 were up from $1.07 per share in 1970. This improvement in earnings per share was achieved in the face of a very slow first quarter which was still affected by the business slow down of 1970.

2. **SALES** reached a new high of $67 million up from $61 million in 1970. This reflected improving business and expanded operations by several of our companies.

3. **NET PROFITS** of $953,000 were at a new high, up from $884,000 in 1970.

4. A $3 million debenture issue was privately placed providing us with the resources to finance new growth.

5. **SUMMARY FINANCIAL DATA**	1971	1970	Change up or down %
Net Sales $(000)	67,350	61,113	up 10%
Net Profit $(000)	953	884	up 8%
Earnings per common share	$1.17	$1.07	up 9%
Cash flow per common share	$2.27	$1.95	up 16%
Capital employed $(000)	17,994	14,780	up 22%
Net profit to capital employed	5.7%	8.0%	down 2.3%
Net profit to common shareholders equity at the start of the year	13.8%	13.4%	up 0.4%
Average annual rate of growth of earnings per common share since going public in 1962	13.5%	13.6%	—

Report on Operations

FINANCIAL RESULTS

In spite of a depressed first quarter of 1971 which reflected the continuing impact of a significant business slowdown in 1970, Hugh Russel achieved record sales and profits. Earnings per common share at $1.17 were equal to the best that the company has ever achieved.

During the last nine months of the year net profits were 46% ahead of net profits for the comparable period in 1970. The important reasons for this profit increase are discussed under division results.

Bond Issue

In the Spring of 1971 the company placed privately $3 million of secured debentures with five major financial institutions. This served to strengthen our financial position and will allow us to pursue our plans for the managed growth of the company.

Cash Flow

Our cash flow reached $1.7 million for 1971 ($2.27 per common share vs $1.95 in 1970) the highest in the company's history. This is significant as it measures our ability to fund our investment programs from the company's internally generated cash.

Working Capital

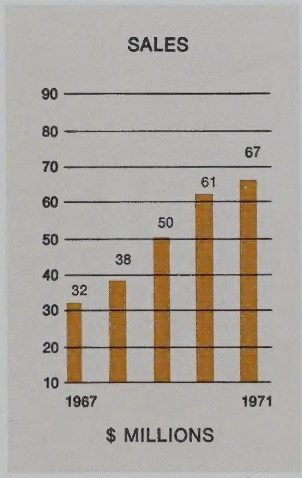
As can be seen from our balance sheet, our working capital increased to $9 million, the highest level in the company's history, and is 42% higher than 1970 levels. This is primarily due to our placement of debentures. Working capital is quite sufficient to finance our presently planned investments.

Capital Expenditures

Capital expenditures of $.8 million in 1971 are down from the 1970 level of $1.2 million. The largest expenditures during the year involved progress payments on the expansion of the Russelsteel warehouse in Toronto and the new steel service centre in Saskatoon, and the opening of a steel service centre in Regina.

Capital Employed

Capital employed in the business, which is essentially shareholders' equity plus long-term debt, rose to $18 million at the end of 1971, roughly 2.7 times the level of 1966. This figure is important because it is a measure of the company's financial resources with which to earn profits for our shareholders.



SALES BY QUARTER

Quarter	1971	1970	1969	1968
		$ Thousands		
1st	14,165	14,393	10,170	8,095
2nd	18,165	16,458	11,762	9,603
3rd	17,413	15,359	14,284	10,205
4th	17,607	14,903	13,603	10,472
	67,350	61,113	49,819	38,375

DIVISION RESULTS

The Distribution Division results improved during 1971 primarily as a result of a better performance by Hector Steel which proved it had overcome the difficulties which it faced at the time Hugh Russel acquired the company. The Engineering Sales Division had depressed sales due to the substantial

decline in the demand for capital equipment both in Canada and abroad. Results are summarized in the table below:

SALES AND PROFITS BY DIVISION
$(000)

	Sales		Profit Contribution before Tax and Parent Company Expense	
	1971	1970	1971	1970
The Distribution Division	$64,476	$56,493	$2,664	$1,896
The Engineering Sales Division	2,874	4,620	(246)	394

OPERATIONS

THE DISTRIBUTION DIVISION

This division comprises Russelsteel, Hector Steel and Hercules Steel, a national chain of 9 steel service centres and Canadian Bearings, a chain of 8 convenience centres, distributing bearings and power transmission components to industry in Ontario.

The steel service centre industry buys, stocks and distributes to customers on short notice, a complete range of steel mill products. In many cases, the steel service centre will pre-process material to customer requirements. This might involve cutting sheet coils to length and width on automated equipment, flame cutting shapes from plate, saw cutting beams, bars and shapes to length, braking, wheelabrating and painting steel. The sole function of the steel service centre industry is to get steel from the basic producers to the companies which require it promptly and economically.

The Bearing Specialist, which describes Canadian Bearings, buys and stocks more than 30,000 different bearings and power transmission components for the industrial replacement market. The warehousing, delivery and product expertise of the bearing specialist relieves industry of the difficult and costly task of attempting to have on hand all of the replacement stock and precise knowledge which is essential to efficient plant maintenance.

These are but two facets of the large and increasingly vital function of Industrial Distribution which is Hugh Russel Limited's primary field of interest and management expertise.

Russelsteel/Hector/Hercules Steel

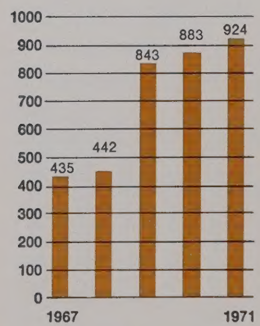
During 1971 considerable improvement was achieved in the operation of the western steel service centres and all units are now operating profitably.

Steel service centre operations are now managed on a national basis with further co-ordination in management functions planned to improve service and reduce cost. Considerable profit improvement should become evident as these plans are implemented.

Steel service centre operations produced record profits during 1971 in spite of the weakness in demand coupled with rising costs that depressed earnings during the early part of the year. Much attention was paid during the year to programs to reduce costs and improve service.

As one means of improving performance, a major investment program was undertaken during the year. A 55,000 square foot addition to the Toronto warehouse and a new 25,000 square foot warehouse in Saskatoon, are now virtually complete. A new steel service centre for Edmonton is scheduled for construction in 1972 as is a major rebuilding of the Calgary facilities.

NET EARNINGS



$ THOUSANDS

NET BY QUARTER

Net earnings per share based on average shares outstanding during each quarter.

QUARTER	1971	1970	1969	1968
1st	$ .01	$ .35	$ .17	$ .04
2nd	$ .26	$ .38	$ .28	$ .18
3rd	$ .36	$ .27	$ .37	$ .21
4th	$ .54	$ .07	$ .35	$ .28
	$1.17	$1.07	$1.17	$ .71

In total, this program represents a $2 million investment in new and improved steel service centre facilities.
Our steel service centres enter 1972 well positioned in terms of facilities and organization to capitalize on the expected improvement in business activity.

Canadian Bearings

Hugh Russel, through Canadian Bearings, is the largest industrial distributor of bearings and power transmission components in Canada.

During 1971 Canadian Bearings opened a new convenience centre in Kitchener, bringing to 8 the number of centres operating in Ontario.

To enable the division to handle an increasing volume of business (sales are up approximately 50% over the past 3 years) it has been necessary to develop computerized and more automated methods for the analysis of sales, processing of orders and control of inventory and expense. Much has been accomplished in this regard over the past two years and the division is now able to give serious thought to much broader expansion plans than has been possible up to now.

THE ENGINEERING SALES DIVISION

In this division we group three companies, namely, Ceeco Machinery Manufacturing, Barker-Thorne with its Master Mechanical division and Larson and Epp. All are engineering sales companies, that is to say their primary activities are those of the design engineer and technical salesman. They may, but do not always, manufacture the equipment or product line they design. In many cases they act as agents for other manufacturers applying their technical skills to the solution of the customer's manufacturing problems.

Ceeco Manufacturing

Ceeco Machinery Manufacturing is the leading designer and builder of wire and cable making equipment in Canada. Against world competition, the company was recently awarded a $400,000 contract by an international telecommunications company. This contract calls for the construction of a single machine which Ceeco has designed to manufacture a new type of telecommunications cable.

In a joint venture with a leading United States wire and cable manufacturer, the company has built a prototype of a completely new type of wire stranding machine which is now undergoing test.

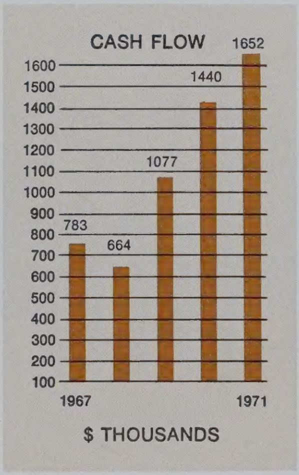
During 1971 the company experienced generally reduced demand for capital equipment from the wire and cable industry. As a consequence sales and profits were sharply lower than in 1970. A pick up in demand, particularly from Canadian based companies, occurred during the fourth quarter and the company entered 1972 with the largest order backlog in its history. Aggressive sales effort by the United States branch during the past year resulted in developing proposals with several major U.S. companies. These should yield important new contracts when the industry begins to order new equipment.

We continue to view this company as one with significant profit potential.

Barker-Thorne

Barker-Thorne designs and builds specialized production machinery, precision dies and production tooling.

The company continued to suffer from depressed demand for capital equipment during 1971, although a marked improvement in the value of



CASH FLOW

Comprises net earnings, depreciation and the amount by which deferred income taxes have increased or decreased per year.

	(000)	Per Common Share
1971	$1,652	$2.27
1970	$1,440	$1.95
1969	$1,077	$1.53
1968	$ 664	$1.07
1967	$ 783	$1.27

orders received took place in the fourth quarter. The imposition of the U.S. surcharge in August also resulted in unexpected costs on major orders shipped to American customers.

The combining of the Barker-Thorne and Master Mechanical plants which was completed in 1970 provided a reduction in operating costs during 1971 which proved to be most important in this period of reduced activity.

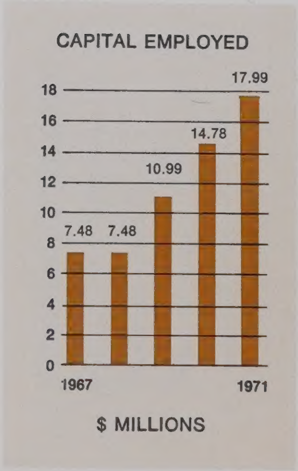
We look for considerably improved results during 1972 with some of the recent uncertainties now behind us.

Larson & Epp

Located in Calgary and Vancouver, this company designs and sells material handling and pollution control equipment to the pulp and paper, agricultural and natural resource industries of Western Canada.

Although sales in 1971 were ahead of 1970, margins were lower due to the type of work available and increased competition in industries served. Costs were up due to the pressure to diversify and reorganize in order to take advantage of new market opportunities.

During the year a new group was formed to provide consulting services as well as supply machinery and equipment for the detection, measurement, prevention and reduction of pollutants in our natural elements of water, soil and air. With their wide experience in serving Western industry, this appears to be an important expansion of the company's product line and service.

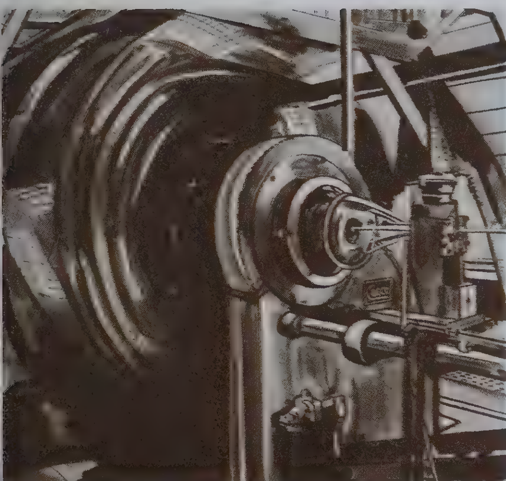


SUMMARY AND OUTLOOK

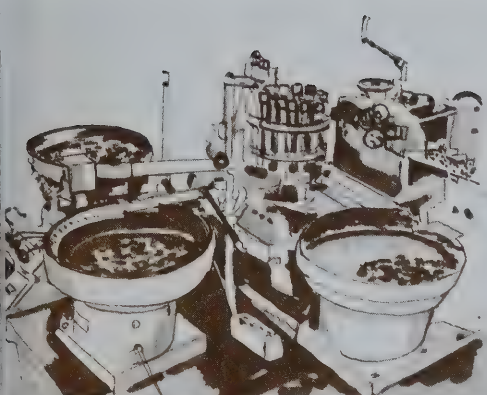
The year 1971 turned out much as expected with the first half generally slow, with significant improvement taking place in the latter half of the year. By year end the corporation was putting through a considerable volume of business and still had capacity to handle a substantial further increase. We expect such an increase during 1972 and have planned accordingly.

Many of the difficulties of 1970 and 1971 are now behind us. These years saw a worldwide slowing in the pace of economic activity, inflation of epidemic proportions, the most serious international monetary crisis since 1945, to say nothing of the uncertainties introduced into Canadian business planning by "tax reform" and the actions of the United States government taken to protect its trade position. With this in mind, it is small wonder that the past two years have been far from buoyant. It now appears that all of the aforementioned problems have been brought under control although not eliminated. There would therefore appear to be good reason for believing that we may look forward to a considerably improved business climate for several years to come.

Russelsteel Toronto warehouse after construction of its 55,000 sq. ft. addition bringing total capacity to over 175,000 sq. feet.



A Ceeco designed and built wire strander in operation at the Bracebridge, Ontario plant of Alcan.



An automatic valve assembly machine designed and built at Barker-Thorne.

Customer service at a Canadian Bearings branch.

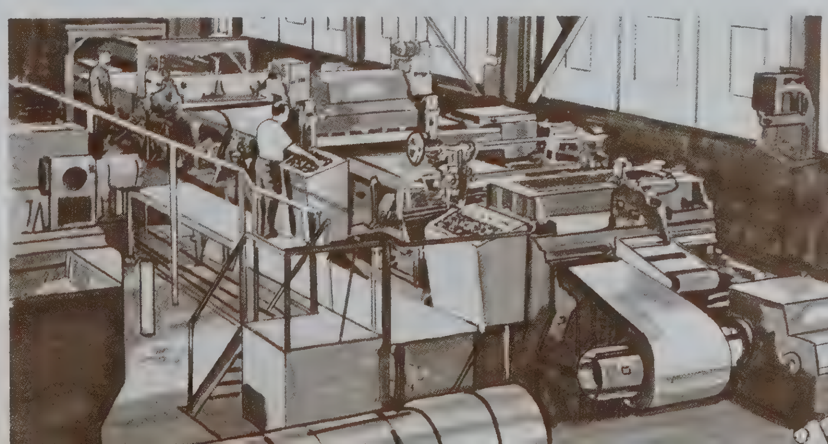
Flame cutting facilities available at most of our steel service centres.

Canadian Bearings head office and main warehouse near Toronto International Airport.

Systematized layout of some of the 30,000 inventory items available from Canadian Bearings.

A portion of Canadian Bearings radio dispatched customer service fleet.

Typical machinery used to cut coils of sheet steel to any length, as normally found in our Russel/Hector/Hercules steel service centres.



TEN YEAR SUMMARY

	1971	1970	1969	19
OPERATING RESULTS (THOUSANDS)				
Net Sales	**$67,350**	$61,113	$49,819	$38
Earnings before deducting depreciation, interest on long-term debt, minority interest and income taxes	**$ 2,969**	$ 2,670	$ 2,413	$ 1
Depreciation	**$ 628**	$ 513	$ 310	$
Interest on long-term debt	**$ 359**	$ 179	$ 148	$
Income taxes	**$ 995**	$ 1,052	$ 1,072	$
Minority interest	**$ 34**	$ 42	$ 40	$
Net earnings	**$ 953**	$ 884	$ 843	$
OPERATING STATISTICS				
% Net earnings to net sales	**1.4%**	1.4%	1.7%	1.
% Net earnings to common shareholders' equity	**13.8%**	13.4%	18.2%	9
% Total dividends to net earnings	**49%**	53%	43%	5
PER SHARE OF COMMON STOCK (Adjusted to reflect stock split)				
Based on average common shares outstanding (thousands)	**633**	627	627	
Net earnings (after preferred dividends)	**$ 1.17**	$ 1.07	$ 1.17	$
Cash flow	**$ 2.27**	$ 1.95	$ 1.53	$
Book value	**$ 9.38**	$ 8.62	$ 7.96	$
OTHER STATISTICS				
Current assets/current liabilities (ratio)	**1.5:1**	1.3:1	1.5:1	1
Shareholders' equity/Long-term debt (ratio)	**1.8:1**	3.4:1	3.6:1	1
Additions to facilities (thousands)	**$ 825**	$ 1,230	$ 437	$
Number of common shareholders	**837**	798	760	
BALANCE SHEET DATA (THOUSANDS)				
Current assets	**$27,524**	$25,728	$17,659	$17
Current liabilities	**$18,339**	$19,271	$11,523	$14
Working capital	**$ 9,185**	$ 6,457	$ 6,136	$ 3
Fixed assets at cost	**$11,056**	$10,600	$ 6,054	$ 5
Less accumulated depreciation	**$ 4,348**	$ 3,963	$ 2,470	$ 2
Net fixed assets	**$ 6,708**	$ 6,637	$ 3,584	$ 3
Other assets	**$ 2,101**	$ 1,686	$ 1,273	$
Capital employed	**$17,994**	$14,780	$10,993	$ 7
Financed by:				
Long-term debt	**$ 5,282**	$ 2,541	$ 2,292	$ 2
Deferred income taxes	**$ 248**	$ 177	$ 58	$
Minority interest	**—**	$ 356	$ 356	$
Contractual obligation	**$ 3,208**	$ 3,000	—	-
Shareholders' equity	**$ 9,256**	$ 8,706	$ 8,287	$ 4

	1967	1966	1965	1964	1963	1962
	$32,473	$24,157	$22,975	$19,436	$15,015	$14,218
	$ 1,210	$ 1,354	$ 1,309	$ 1,125	$ 631	$ 506
	$ 245	$ 205	$ 155	$ 133	$ 121	$ 122
	$ 153	$ 156	$ 50	$ 53	$ 58	$ 63
	$ 371	$ 488	$ 577	$ 461	$ 140	$ 129
	$ 6	—	—	—	—	—
	$ 435	$ 505	$ 527	$ 478	$ 312	$ 192
	1.3%	2.1%	2.3%	2.5%	2.1%	1.4%
	10.4%	12.9%	13.8%	14.2%	9.9%	6.3%
	56%	47%	42%	36%	56%	67%
	616	589	584	578	576	576
	$ .71	$ .86	$ .90	$ .83	$ .54	$ .33
	$ 1.27	$ 1.26	$ 1.21	$ 1.13	$ .75	$ .55
	$ 7.35	$ 7.10	$ 6.65	$ 6.60	$ 5.84	$ 5.48
	1.4:1	1.4:1	1.5:1	1.4:1	1.6:1	1.7:1
	1.9:1	1.7:1	1.6:1	5.7:1	4.6:1	3.8:1
	$ 392	$ 475	$ 1,153	$ 992	$ 51	$ 32
	643	667	691	620	661	667
	$14,091	$11,701	$10,025	$ 8,273	$ 7,411	$ 6,329
	$10,385	$ 8,107	$ 6,475	$ 5,843	$ 4,700	$ 3,817
	$ 3,706	$ 3,594	$ 3,550	$ 2,430	$ 2,710	$ 2,512
	$ 5,045	$ 4,415	$ 4,041	$ 3,001	$ 2,321	$ 2,288
	$ 1,785	$ 1,282	$ 1,140	$ 905	$ 940	$ 829
	$ 3,260	$ 3,133	$ 2,901	$ 2,096	$ 1,381	$ 1,459
	$ 514	—	—	—	—	—
	$ 7,480	$ 6,727	$ 6,451	$ 4,526	$ 4,091	$ 3,971
	$ 2,399	$ 2,453	$ 2,500	$ 671	$ 730	$ 819
	$ 200	$ 97	$ 67	$ 40	—	—
	$ 356	—	—	—	—	—
	—	—	—	—	—	—
	$ 4,525	$ 4,177	$ 3,884	$ 3,815	$ 3,361	$ 3,152

HUGH RUSSEL LIMITED
INCORPORATED UNDER THE LAWS OF CANADA
and its subsidiary companies

Consolidated Statement of Earnings

For the year ended December 31, 1971
(with comparative figures for 1970)

	1971	1970
Sales	**$67,349,848**	$61,112,856
Earnings from operations before deducting the following items:	**$ 2,968,616**	$ 2,670,075
Depreciation (note 4)	**627,545**	513,336
Interest on long-term debt	**359,185**	178,584
Earnings before income taxes and minority interest	**1,981,886**	1,978,155
Income taxes (note 8)	**995,107**	1,052,072
Minority interest	**34,166**	42,251
Net earnings for the year	**$ 952,613**	$ 883,832
Earnings per common share	**$1.17**	$1.07
Fully diluted earnings per share (note 5)	**$0.97**	$0.92

(See accompanying notes)

Consolidated Statement of Retained Earnings

For the year ended December 31, 1971
(with comparative figures for 1970)

	1971	1970
Balance, beginning of year	**$ 5,051,021**	$ 4,632,470
Net earnings for the year	**952,613**	883,832
	6,003,634	5,516,302
Deduct:		
Dividends paid on common shares (including stock dividends on Class "B" shares and special tax thereon.)	**253,266**	250,781
Dividends paid on preferred shares	**214,500**	214,500
	467,766	465,281
Balance, end of year	**$ 5,535,868**	$ 5,051,021

(See accompanying notes)

HUGH RUSSEL LIMITED
INCORPORATED UNDER THE LAWS OF CANADA
and its subsidiary companies

Consolidated Statement of Source and Application of Funds

For the year ended December 31, 1971
(with comparative figures for 1970)

	1971	1970
Funds were obtained from:		
Operations —		
Net earnings for the year	**$ 952,613**	$ 883,832
Expenses not requiring a current cash outlay:		
Depreciation	**627,545**	513,336
Income taxes (deferred portion)	**71,513**	42,500
	1,651,671	1,439,668
Issue of Series "B" debentures	**3,000,000**	—
Employee share purchases	**46,040**	—
Stock options exercised	**1,728**	986
Issue of additional preferred shares	**200,000**	—
Contractual obligation	**208,000**	3,000,000
Sundry	**125,316**	81,246
	5,232,755	4,521,900
Funds were applied to:		
Purchase shares of subsidiary company	—	3,016,204
Less working capital acquired	—	1,024,903
Balance	—	1,991,301
Redeem preferred shares	**182,986**	—
Increase premiums on businesses previously acquired	**414,405**	222,768
Additions to facilities	**824,279**	1,230,182
Pay dividends on common shares	**253,266**	250,781
Pay dividends on preferred shares	**214,500**	214,500
Retire debentures	**115,000**	67,000
Purchase minority interest in preference shares of subsidiary	**355,834**	91,000
Repay other long-term debt	**144,240**	134,282
	2,504,510	4,201,814
Net increase in working capital	**2,728,245**	320,086
Working capital, beginning of year	**6,456,442**	6,136,356
Working capital, end of year	**$ 9,184,687**	$ 6,456,442

(See accompanying notes)

HUGH RUSSEL LIMITED
INCORPORATED UNDER THE LAWS OF CANADA
and its subsidiary companies

Consolidated Balance Sheet

December 31, 1971
(with comparative figures at December 31, 1970)

ASSETS	1971	1970
Current:		
Accounts receivable	**$12,359,377**	$10,708,986
Inventories, valued at the lower of average cost and market (net realizable value)	**14,625,564**	14,189,893
Prepaid expenses and other assets	**407,752**	415,146
Income taxes recoverable	**131,458**	414,273
Total current assets	**27,524,151**	25,728,298
Fixed, at cost (note 4):		
Land	**805,485**	784,833
Buildings	**5,062,510**	4,464,946
Machinery and equipment	**5,188,111**	5,350,186
	11,056,106	10,599,965
Less accumulated depreciation	**4,347,529**	3,962,806
	6,708,577	6,637,159
Premiums paid on acquisitions	**2,100,594**	1,686,189
	$36,333,322	$34,051,646

On behalf of the Board:

A. D. Russel, Director

M. D. Glenn, Director

(See accompanying notes)

LIABILITIES

	1971	1970
Current:		
Bank indebtedness (against which certain receivables and inventories are pledged)	$ 8,727,852	$11,289,617
Accounts payable and accrued charges	8,945,869	7,472,915
Income taxes payable	348,446	341,324
Long-term debt due within one year (note 2)	125,297	168,000
Contractual obligation due within one year (note 6)	192,000	—
Total current liabilities	18,339,464	19,271,856
Deferred income taxes	248,171	176,658
Long-term debt (note 2)	5,281,525	2,540,765
Minority interest in preference shares of subsidiary	—	355,834
Contractual obligation (note 6)	3,208,000	3,000,000
Shareholders' equity:		
Capital stock —		
Authorized (note 3)		
Issued (note 3):		
165,725 6½% preferred shares	3,314,500	3,300,000
272,620 Class "A" common shares 360,676 Class "B" common shares (1970 — 626,990 shares)	403,280	355,512
Contributed surplus (note 3)	2,514	—
Retained earnings	5,535,868	5,051,021
	9,256,162	8,706,533
	$36,333,322	$34,051,646

Notes to Consolidated Financial Statements

December 31, 1971.

1. Basis of consolidation — The accompanying consolidated financial statements include the accounts of the Company and all its subsidiaries. The consolidated statements of earnings and retained earnings include the earnings of all subsidiary companies from the dates of their acquisition by the Company.

2. Long-term debt —

	1971	1970
Series A — 6¼% Secured sinking fund debentures, maturing October 15, 1985	$2,110,000	$2,225,000
Series B — 9½% Secured sinking fund debentures, maturing April 15, 1991	3,000,000	—
Other long-term debt	296,822	483,765
	5,406,822	2,708,765
Less portion due within one year included in current liabilities	125,297	168,000
	$5,281,525	$2,540,765

The Series A and Series B debentures are secured by a first mortgage on all the shares of Russelsteel Limited (a wholly-owned subsidiary) and on the fixed assets of that subsidiary, and by first floating charges on the remaining assets of the Company and Russelsteel Limited. The original and supplemental trust deeds under which the debentures are issued provide for sinking funds to retire by redemption a portion of the debentures prior to maturity as follows:

Series A — $1,500,000 principal amount to be retired by progressive annual appropriations to 1984.

Series B — $2,250,000 principal amount to be retired by progressive annual appropriations to 1990.

Under the terms of the trust deeds relating to the sinking fund debentures, the Company is prohibited, under certain conditions from paying dividends, other than cumulative preferred dividends or stock dividends, or from redeeming, purchasing or reducing its capital stock. In addition, under the terms of the supplemental trust deed relating to the Series B debentures, the Company is required to comply with certain general conditions relating to various balance sheet ratios. The Company has complied with all the requirements of the original and supplemental trust deeds.

Other long-term debt relates to obligations of certain wholly-owned subsidiary companies, principally mortgages with interest rates varying from 7% to 8¾%.

Payments to retire debentures and other long-term debt over the next five years will total $721,297 payable:

1972	$125,297
1973	92,000
1974	156,000
1975	161,000
1976	187,000

3. Capital Stock —

a) Authorized:

		Number of shares
First preferred shares of the par value of $20.00 each, issuable in series, of which 175,000 are designated 6½% cumulative, redeemable, convertible first preferred shares Series A. The 175,000 designated shares are redeemable at $24.00 or, at the holder's option, are convertible into Class A or Class B common shares on the basis of two common shares for one preferred share.		500,000
4% non-cumulative second preferred shares of the par value of 1¢ each, redeemable at par.	75,000,000	
Less issued at par as stock dividends and redeemed out of capital for cash.	57,500,970	17,499,030
Class A common shares without par value, convertible into Class B common shares on a share for share basis.		4,000,000
Class B common shares without par value, convertible into Class A common shares on a share for share basis.		4,000,000

b) Issued and Outstanding:

6½% first preferred shares	
Issued for cash in prior years	165,000
Issued during the year as partial consideration for the purchase of minority interest in preference shares of a subsidiary	10,000
	175,000

Less purchased for cancellation pursuant to the terms of issue (9,275 shares purchased for cash of $182,986 in 1971. The difference between the purchase price and the par value, amounting to $2,514, has been credited to contributed surplus.)	9,275	165,725
4% second preferred shares (11,987,380 issued and redeemed during year)		nil
Class A common shares — Issued and allotted (6,306 in 1971 for cash of $47,768.)	633,296	
Issued upon conversion of Class B common shares (5,870 in 1971)	128,000	
	761,296	
Less conversion to Class B common shares (18,016 in 1971)	488,676	272,620
Class B common shares — Issued upon conversion of Class A common shares (18,016 in 1971)	488,676	
Less conversion to Class A common shares (5,870 in 1971)	128,000	360,676

c) Reserved:

Authorized unissued common shares are reserved for possible issue as follows, for —

Class A:		
Conversion of Class B shares		360,676
Conversion of first preferred shares		331,450
Options granted to officers —		
at $5.62½ per share	5,000	
at $7.00 per share	11,000	
at $8.55 per share	20,000	36,000
Options granted to employees —		
at $6.07½ per share	912	
at $6.75 per share	2,440	
at $7.00 per share	6,000	
at $8.10 per share	11,600	20,952
Additional options to be granted in the future		4,942
The Company's employee share purchase plan		17,676
Total Class A shares reserved		771,696
Class B:		
Conversion of Class A shares		272,620
Conversion of first preferred shares		331,450
Total Class B shares reserved		604,070

d) During the year, the Company applied for and received Supplementary Letters Patent dividing its authorized and issued Class A and Class B common shares on a two for one basis.

4. Depreciation — Depreciation has been provided by the companies on a straight line basis with the exception of Hector Steel Industries Ltd. and its subsidiaries, which use the reducing balance method. Rates employed are as follows:

	Hector	All other companies
Buildings	5% and 10%	2½% and 5%
Machinery and equipment	20%	10%

5. Earnings per share — Fully diluted earnings per share shows the effect on earnings which would result if:

a) all of the issued and outstanding 6½% first preferred shares had been converted into common shares at the beginning of the year, and

b) stock options for the purchase of common shares had been exercised at the beginning of the year and the funds derived therefrom had been invested to produce an annual return of 9% after applicable taxes. The amount of income imputed, after income tax, was $39,069 ($31,430 in 1970).

6. Commitments and contingencies —

a) Early in 1970 the Company acquired all the outstanding common shares of Hector Steel Industries Ltd. for a formula price which was to be not less than $3,000,000 and not more than $6,000,000. During 1971, the purchase agreement was amended to fix the purchase price at $3,400,000. The excess of the amended purchase price over the amount previously recorded in the accounts has been added to "Premiums paid on acquisitions".

Under the terms of the amended agreement, the purchase price of $3,400,000 is payable as follows:

(i) The sum of $400,000 is payable in cash in annual instalments of $120,000 from 1972

to 1974 with a final payment of $40,000 in 1975.

(ii) The balance of $3,000,000 is payable over the same period as in (i) above, the timing of the payments to be determined by a formula related to the consolidated net earnings of Hector Steel Industries Ltd. This balance is payable, at the Company's option, in cash, common shares or other marketable securities of the Company convertible into common shares, or a combination thereof.

The total payment required in 1972, amounting to $192,000, has been included in current liabilities.

Approximately 81% of the issued and outstanding common shares of Hector Steel Industries Ltd. are held in trust as security for the obligations of the Company under the amended purchase agreement.

b) In 1968, a subsidiary purchased the net assets of another business. The amount to be paid for purchased goodwill and the timing of the payments are to be based upon average net earnings for the five year period that began March 1, 1968. Full provision for this commitment based on earnings to December 31, 1971 is reflected in the accounts as at that date.

c) The Company and its subsidiaries are committed to annual rental payments of approximately $285,000 on leases expiring in the years 1972 to 1990.

7. Remuneration of directors and officers — The Company has ten directors and seven officers, six of whom are directors.

The following remuneration is charged in the consolidated statement of earnings for the year ended December 31, 1971 in respect of directors and officers of the Company.

	Charged by		
	Hugh Russel Limited	Russelsteel Limited	Total
Directors, as directors	$ 5,300	—	$ 5,300
Officers, as officers	156,184	$136,379	292,563

8. Income taxes — The Company has not recognized the benefit of future tax credits which may result from the carry-forward of losses of prior years of one of its subsidiaries. Such future tax credits may amount to $65,000 based on current rates of income tax.

9. Events subsequent to year-end — On January 1, 1972 the Company acquired an option to purchase all of the outstanding shares of another company for a total consideration not to exceed $3,500,000. If the option is exercised, $1,500,000 of the purchase price will be payable in 1972 and the balance will be payable in instalments based on the profits of the acquired company for the years 1972 to 1976. Payment may be made, at the Company's option, in cash or marketable securities of the Company, or a combination thereof. As of January 31, 1972 no decision has been reached as to whether to exercise the option.

10. Change in name — During the year the Company applied for and received Supplementary Letters Patent changing its name from Hugh Russel & Sons, Limited to Hugh Russel Limited.

Clarkson, Gordon & Co.
Chartered Accountants
630 Dorchester Blvd. W., Montreal 101, Canada

Auditors' Report

To the Shareholders of
Hugh Russel Limited:

We have examined the consolidated balance sheet of Hugh Russel Limited (formerly Hugh Russel & Sons, Limited) and its subsidiary companies as at December 31, 1971 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Montreal, Canada,
January 31, 1972.

Chartered Accountants

HUGH RUSSEL LIMITED

HEAD OFFICE

8 King St. E. — Toronto

SUBSIDIARY COMPANIES

Russelsteel Limited
Russel Tradecorp Limited
Hector Steel Industries Ltd.
Hercules Steel Ltd.
Larson & Epp Industries Limited
Canadian Bearings Co. Limited
Ceeco Machinery Manufacturing Limited

DIVISIONS

Barker-Thorne
Master Mechanical Manufacturing

DIRECTORS

J. P. FOSTER	Toronto
M. D. GLENN	Montreal
R. HARTOG	Midland
K. D. MOONEY	Toronto
J. D. REILLY, Q.C.	Toronto
L. A. ROBIDOUX	Montreal
A. D. RUSSEL	Toronto
G. D. RUSSEL	Montreal
G. D. SHEARER, C.A.	Montreal
J. W. VINGOE	Toronto

EXECUTIVE OFFICERS

G. D. RUSSEL	Chairman of the Board
A. D. RUSSEL	President
J. P. FOSTER	Executive Vice-President
M. D. GLENN	Vice-President
J. D. REILLY, Q.C.	Secretary
G. D. SHEARER, C.A.	Treasurer
J. M. O'SULLIVAN	Assistant Secretary

REGISTRARS AND TRANSFER AGENTS

The Royal Trust Company

STOCK EXCHANGES

Montreal and Toronto

AUDITORS AND SOLICITORS

AUDITORS	Clarkson, Gordon & Co.
SOLICITORS	Salter, Reilly, Jamieson & Apple

ANNUAL MEETING

ROYAL YORK HOTEL, TORONTO
March 30, 1972.